Massachusetts Health Care Reform, Phase Two

Controlling Health Care Costs

City of Boston PEC Meeting
October 9, 2012

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Topics

- Structure for controlling health care costs
  - New organizations created
  - Carrots
  - Sticks
  - Disclosure
- Cost control benchmark
- Consequences for failing to control costs
- Discussion

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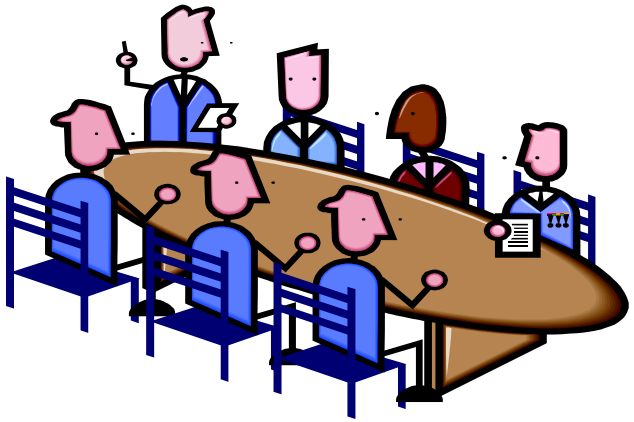
New Infrastructure

- Health Policy Commission
  - Key driver of legislative implementation
  - Independent entity within EO of A&F with 11-person board
  - Advisory Council, including public and private payers
  - Will monitor the reform of the health care delivery and payment system as outlined in the new legislation
  - Will work closely with Center for Health Information and Analysis to understand cost picture in Massachusetts



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New Infrastructure (cont'd)

- Center for Health Information and Analysis
  - Independent state agency
  - To act as the designated health care data collection, public data dissemination and analysis agency
    - Extensive data collection from payers and providers
  - To provide critical, independent analysis as to how the state's policies are affecting cost trends; understanding provider/public-private payer/TPA costs and cost trends
  - To review all capital expenditure projects requiring a (newly created) determination of need approval

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Cost Control Mechanism

- Health Policy Commission to Set Annual Health Care Cost Growth Benchmark Annually by April 15
- Defined as the projected annual percentage change in total health care expenditures in the Commonwealth
- Health care services broadly defined
- Targets
  - 2013 – 2017: set at potential rate of State's gross state product (estimated at 3.7% for 2013)
  - 2018-2022: set between -0.5% and gross state product
  - 2023+: set at gross state product

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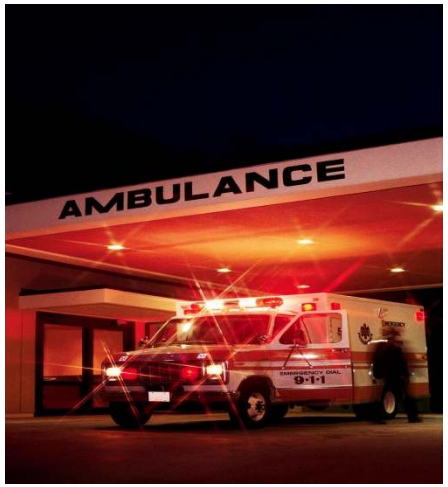
Cost Control Mechanism (cont'd)

- Applies to "health care entities" defined as clinics, hospitals, ambulatory care centers, physician organizations, accountable care organizations or payer
  - Exempts physician contracting organizations with 15,000 patients or fewer OR less that $25 million in annual net patient service revenue from carriers



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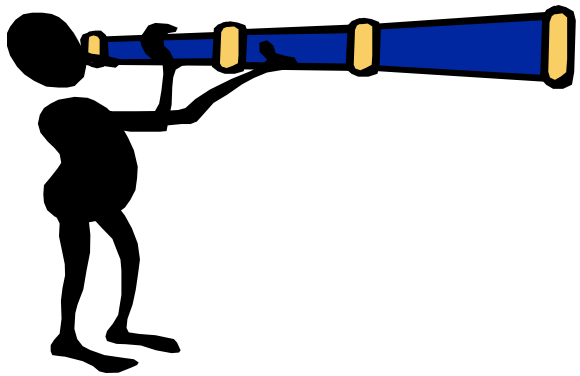
Enforcement

- Entities exceeding target are notified by Commission
- Beginning CY2015 entities not meeting target must develop and implement a performance improvement plan
  - Waiver option is available if specified criteria met (can show improvement; unexpected circumstances, etc.)
- Implementation of accepted performance improvement plan is monitored by the Commission



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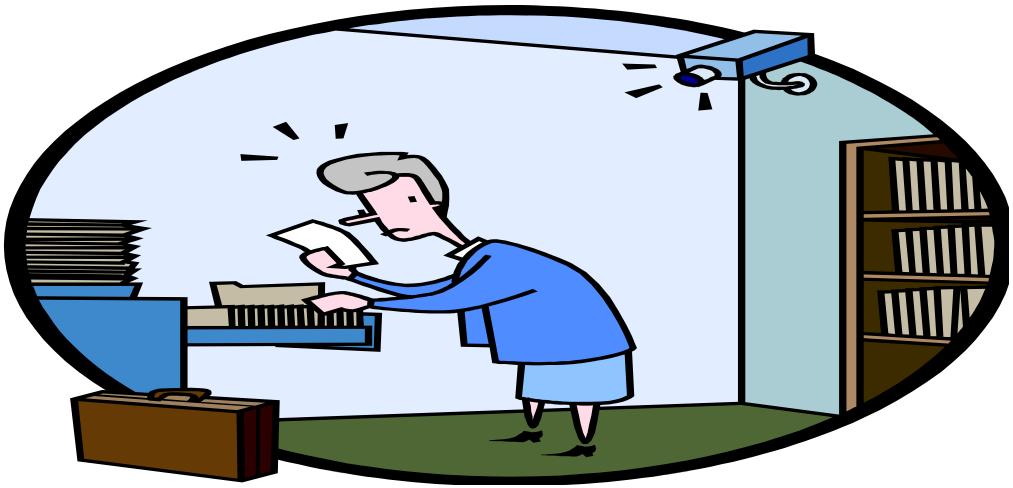
Enforcement (cont'd)

- Potential civil fine of $500,000 if good faith lacking or entity was willfully negligent.
- Coupled with earlier legislation gave DOI expanded rate review powers to apply



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Investigate and Enforce

- AG's powers to investigate health care costs and cost trends are enhanced
- To address reimbursement differentials across providers
  - Commission may conduct a Cost and Market Impact Review
  - Review goes to AG who can use it as basis for enforcing existing anti-trust laws
  - Special Commission to determine and quantify acceptable and unacceptable factors contributing to price variation

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Registration and Oversight of Large Provider Organizations

- Data collected
  - Org charts of ownership, governance, affiliates, etc.
  - Number of affiliated health care professionals
  - Names/addresses of licensed facilities
  - Material changes to its operating or governance structure
- Providers with >15000 patient panel/$25m in annual net patient service revenues may not negotiate a network contract if it is not registered
- If material change will adverse impact growth target, Commission may conduct a Cost and Market Impact Review
  - If findings indicate high market share, higher prices and higher medical expenses, referred to AG for possible AT enforcement

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Encourage Innovation

- Creates Mass e-Health Institute to promote Electronic Health Records and Health Information Exchange
- Creates Healthcare Payment Reform Fund to fund innovation in health care delivery and payment through soliciting proposals and providing grants, technical assistance, evaluation assistance
  - Proposals can cover cooperative efforts between management and representatives of employees that are focused on controlling costs and improving quality of care through workforce engagement
  - Proposals must support efforts to reach cost benchmark

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Payment Reform

- Requires state-funded health care programs (Medicaid/GIC) to move to new methodologies
- Allows enhanced Medicaid payments for providers who transition into medical homes
- Provides financial support for distressed hospitals to build infrastructure to be able to accept global capitation

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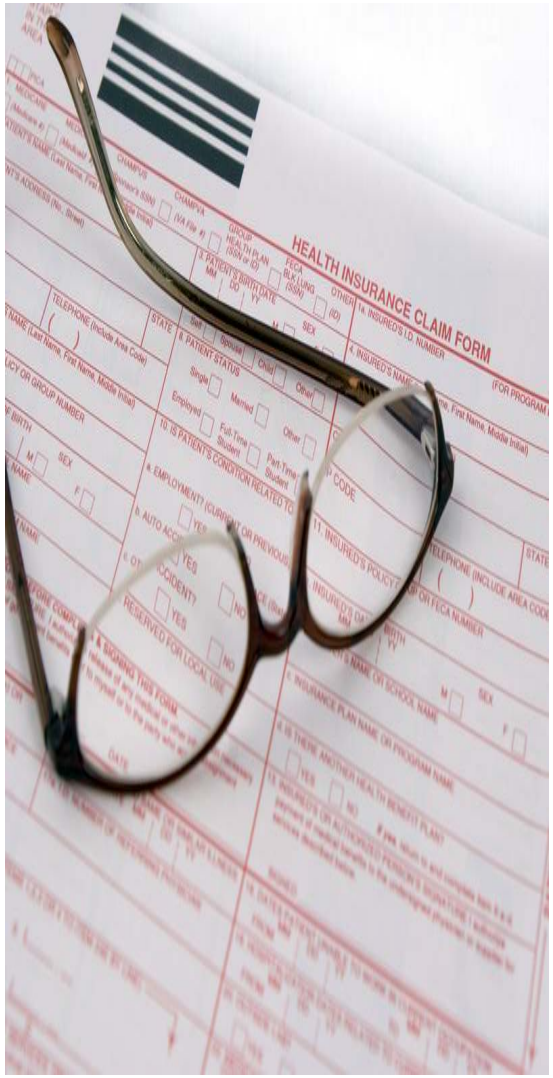
Patient Protection

- New Office of Patient Protection will focus on making managed care information available, including:
  - UM review criteria
  - Medical necessity criteria and protocols
  - Medical loss ratios
  - Quality-related information
  - Grievance procedures
- Law enhances the authority and power of the patient safety and medical errors reduction center
  - Requires public reporting of quality and cost measures



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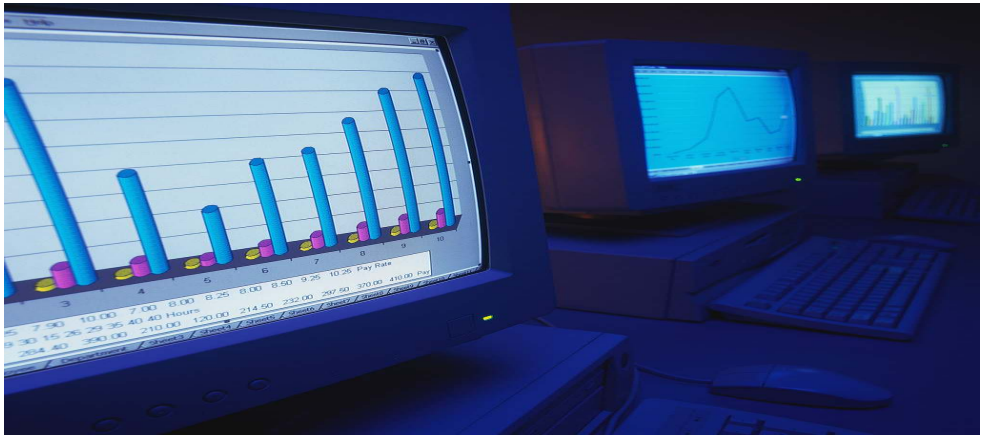
Data Transparency

- Law requires carriers and TPA to provide cost estimates and insurance payments for proposed admission, procedure or service
- Establishes an on-line site for accessing all-payer cost and quality information



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Patient Engagement and Public Health Promotion

- Creates Prevention and Wellness Trust Fund under direction of the Public Health Commissioner
  - Must use 75% of funds for initiatives for municipalities; community based organizations, providers or plans working with a municipality; or regional planning agencies. Initiative must focus on reducing preventable health conditions and health care costs
  - May target 10% of funds to support increased adoption of workplace-based wellness or health management programming
  - Commissioner can prioritize geographic areas with high incidence of preventable health conditions
- Commissioner to develop model wellness guide of best practices

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Funding of Healthcare Reform

- AIM reports law to generate $225 million in assessments over 4 years from payers and hospitals for the following purposes:
  - $30m for electronic medical records
  - $60m for prevention and wellness
  - $135m for distressed hospitals
- Assessments on payers
  - Estimated combined assessment of $165 million*
  - BCBSMA: half by BCBSMA*
  - Fallon: between $20 - $30 million*
  - Tufts/HPHC/other - $50 - $60 million

*Boston Business Journal, August 10, 2012 (on-line article by Julie M. Donnelly)

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Funding of Healthcare Reform (cont'd)

- Assessment on hospital systems with more than $1b in assets
  - Estimated combined assessment of $60 million*
  - Partners: between $40m and $50m*
  - Children's and Care Group: remainder*
- Nursing home assessments to generate $145m each FY

*Boston Business Journal, August 10, 2012 (on-line article by Julie M. Donnelly)

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No Free Lunch

- Health care providers will have to cut spending growth in half to meet target of 3.7% in FY13
- Boston Business Journal ran 8/10/12 story about possible job loss in hospital sector
- Moody's Investors said it was credit-negative for Massachusetts' nonprofit hospitals
- Some expressing concern that smaller hospitals may close
- Jim Roosevelt at Tufts HP worries that payments will require an increase in insurance premiums

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Thoughts on Potential Impact on Providers

- Highly paid providers will have more opportunity to cut costs; payment disparity not directly addressed
- Expect very large number of waiver requests in early years. Will be test of political will to monitor large provider groups aggressively.
- Law will accelerate consolidation of providers into risk-bearing groups and adoption of global payments

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Thoughts on Potential Impact on Plans

- Actuaries not likely to price products based on target, but to wait for actual results
- Plans currently working with large providers to reduce costs (BCBSMA's AQC) should be in a better position competitively to benefit from cost reduction efforts
- More use of plan designs that focus on taking costs out of the system through use of substantial incentives:
  - Incentivize use of "high value" providers through limited or steeply tiered networks
  - Incentivize consumer engagement in wellness and chronic condition management programs

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Opportunities for PEC and City of Boston

- Partner with Boston Public Health Commission to expand Boston Moves initiative
- Watch for opportunities to seek funding through the Healthcare Payment Reform Fund
  - partner to grow workforce engagement in initiatives that control costs
- Work with payers and key providers for the City to realize benefits from their cost-savings initiatives

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Discussion

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